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SUBJECT: ALGERIA AND THE PRESIDENTIAL ENTREPRENEURSHIP
SUMMIT

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Introduction/Summary

1. (SBU) Embassy Algiers has been working to prepare for the April 26-27 Presidential Entrepreneurship Summit. This cable summarizes post's efforts to date in support of that event and indicates what we think the Algerian participants will be looking for in terms of Summit outcomes. Their analysis of Algeria's situation and needs were highlighted during a late December roundtable with fifteen entrepreneurs from large and medium-sized companies as well as business educators. They identified strong vestiges of socialist culture and bureaucracy enforced by an aging elite and financed by hydrocarbon rent income as fundamental institutional barriers to entrepreneurship and business growth in Algeria. Many agreed that Algeria's overarching problems of governance based on privilege hampered business development and raised questions as to whether anything short of systemic change in terms of governance could positively transform the business climate. The biggest immediate barriers to forming new businesses and expanding old ones are access to financing and land. Algeria needs new financial instruments and institutions to channel its large financial reserves into entrepreneurial investment. The state should also deregulate, especially in IT. Algeria has a shortage of management talent and needs more management training. Roundtable participants supported new partnerships between U.S. and Algerian firms for investment and know-how transfer, and between U.S. and Algerian universities to set up train-the-trainer programs. Regional fora/networks for entrepreneurs would also help. They also pointed to a successful business and technology incubator program in Tunisia and a Canadian-funded exchange program between private businesses as successful partnerships that have produced start-ups and helped companies innovate. Although some of these ideas help point the way to a successful outcome for our Algerian invitees, it may be hard for the Summit to avoid entirely some discussion of governance problems that hold back the entire MENA region. End summary.

Anti-Entrepreneurial Culture

2. (SBU) Per reftel, the Embassy hosted a roundtable December 28 with 16 Algerian entrepreneurs representing small and medium-sized firms as well as business educators to outline the President's Entrepreneurship Summit and to canvass views on how to spread entrepreneurship and improve business conditions in Algeria. Among the key points expressed in that roundtable:

--Algeria creates only 80 new businesses per year per 100,000 inhabitants vs. 350 for other countries at a similar level of development.

--Algeria's entrepreneurial backwardness was not related to Islam per se, and several participants cited Malaysia and next-door Tunisia as proof. Algeria's problem was instead the result of an anti-entrepreneurial culture that had survived Algeria's socialist era. This culture manifested itself in an administration that had little knowledge of or interest in private enterprise but imposed barriers and regulations that stymied business at many steps along the way of business creation.

--Conditions for start-ups and continuing businesses had been more flexible earlier in this decade but had deteriorated and become more bureaucratic due to deliberate government policy in 2009.

--Income from hydrocarbon rent was a specific element that had historically distorted Algeria's development and defied easy solutions. Some participants agreed that the heritage of colonialism, which deprived African countries of the possibility of participating fully in the industrial revolution, had afflicted Algeria as well.

--A former prime minister believed that if the Washington Summit was to be credible, it would need to address the fundamental problem of government based on privilege rather than law. Throughout the Middle East and North Africa, states had been captured by corrupt elements that supported the status quo at the expense of entrepreneurial innovation.

--On the other hand, as some speakers noted, there were small solutions -- such as Tunisia's "electronic administration" that made many documents accessible online -- as an approach that did not become political.

--The principal barrier to forming new businesses is difficulty accessing capital. Although Algeria is awash in petro-reserves and saves 20 percent of GDP yearly, Algeria's banks are exclusively commercial, not oriented to investment, and have no capacity for risk evaluation. Algeria needs new financing instruments, such as business or investment banks.

--An especially acute problem for small businesses is that that, absent rock-solid collateral, banks only lend to businesses sponsored by persons or institutions of influence.

--Equally difficult is obtaining land to build on. Algeria lacks a strong legal framework for property, making access to land a process of maneuvering with the central and local governments. The roundtable produced no suggested remedies.

--Algeria needs a tax structure that incentivizes business formation and job creation. Small business representatives complained of the irksome and omnipresent bureaucracy that implements anti-business regulations. The participants strongly advocated deregulation, especially for information technology.

--Some of the help Algeria needs can come in the form of partnerships. The know-how that business here lacks can come from partnerships between U.S. and Algerian firms that invest in joint ventures. (Note: this is the arrangement mandated in the amended 2009 budget, which requires that all foreign investment occur in a 51/49 percent Algerian/foreign ownership arrangement. End note)

--Some participants pointed to "technopoles" in Tunisia that brought together universities and research centers with aspiring entrepreneurs to form an enterprise incubator that enjoyed special financing arrangements.

--A business educator advocated U.S.-Algerian university partnerships focused on business education. He had arranged

for professors from the Sloan School of Management to train Algerian professors who would teach at a private university he was setting up in Algiers. Algeria's own National School of Administration should amend its curriculum to give better training in business administration.

--Another partnership model cited was the Canadian Fund for Private Sector Development, which organizes exchanges between entrepreneurs and managers in the same line of business between Canada and other countries.

--There should ideally be some sort of effort made to promote ties among entrepreneurs in the immediate Maghreb region, partly to exchange ideas and best practices, partly to facilitate business. This could translate into networks that could function as fora or "clubs."

Preparing for the Summit

13. (SBU) Since the roundtable, post has issued invitations to the eight participants selected and sought occasions to engage with them. One such occasion was the Commerce Department trade mission February 16-19, during which invitees were invited to mingle at receptions with U.S. company representatives. Such contacts, we hope, may continue and be nurtured during the Summit.

14. (SBU) Closer to the Summit, post intends to host an event that will give us a chance to re-engage with invitees to refine their thinking and get a fuller understanding of their expectations. We hope to elicit more concrete but realistic proposals. Post also intends to work with NEA/MAG in the organization of events for the invitees while in Washington with the Algerian embassy and U.S.-Algerian Business Council.

Comment

15. (SBU) Entrepreneurship abounds in Algeria, as evidenced by the many small privately owned shops and business everywhere in this country. However, this entrepreneurship is overwhelmingly small-scale and only episodically represents

an ambitious vision. The Algerian invitees to the Summit, like those who attended the Embassy's roundtable, represent the rare breed of local entrepreneurs who are trying to make a difference in their country. They have broken through considerable barriers to establish a viable niche in the marketplace, and are open to new U.S. ideas on engaging Algeria and North Africa to improve conditions for business creation and innovation. This Embassy has long believed that a more dynamic environment for start-ups and an increase in the number of medium-size private enterprises are crucial to any Algerian effort to develop its economy in a way that would both create jobs and engage the energy and talents of its young population. A more fruitful business environment is the only real hope of diminishing Algeria's total dependence on hydrocarbon revenues and reversing its current backsliding into economic nationalism and tighter state control. There is not a lot of time to make changes, as projections show hydrocarbon production, and thus revenues, peaking and starting a steady decline within the next decade.

16. (SBU) Our roundtable underscored that discussing barriers to business as well as policy changes and partnerships that could help overcome them should be center stage at the Summit. But our Algerian invitees have indicated that, without some acknowledgement that governance issues are a fundamental problem, the Summit will only touch on part of the reality -- and challenges -- they face at home.

JORDAN